

1                                   **REBUTTAL TESTIMONY OF**

2                                   **JOHN R. HENDRIX**

3                                   **ON BEHALF OF**

4                                   **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

5                                   **DOCKET NO. 2012-218-E**

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7    **Q.     PLEASE STATE YOUR NAME FOR THE RECORD.**

8    A.           My name is John R. Hendrix.

9    **Q.     ARE YOU THE SAME JOHN R. HENDRIX WHO PREVIOUSLY**  
10   **SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

11   A.           I am.

12   **Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13   A.           The purpose of my testimony is to respond to certain matters raised  
14               in the pre-filed direct testimony of (i) Brian W. Coughlan, witness for Time  
15               Warner Cable (“TWC”), and (ii) Kevin O’Donnell, witness for the South  
16               Carolina Energy Users Committee (“SCEUC”), in this proceeding.

17   **Q.     HOW DO YOU RESPOND TO MR. COUGHLAN’S ASSERTION**  
18   **ON PAGE 5, LINE 12, OF HIS DIRECT TESTIMONY THAT TWC’S**  
19   **CABLE TELEVISION (“CATV”) POWER SUPPLIES ARE BEING**  
20   **BILLED UNFAIRLY UNDER SCE&G’S EXISTING RATES?**

21   A.           I respectfully disagree with Mr. Coughlan’s position. TWC’s CATV  
22               Power Supplies are being billed at rates that have been approved by the

1 Public Service Commission of South Carolina (“Commission”). The rates  
2 are cost-based, and the costs on which the rates are based have been  
3 properly allocated to the appropriate class via a cost of service study.  
4 Moreover, in Docket No. 2011-177-E, SCE&G created a special provision  
5 (Experimental Uniform Load Provision or “ULP”) in Rate 16 at the request  
6 of TWC that provided savings for TWC’s existing power supplies. *See*  
7 Commission Order No. 2011-358 approving SCE&G’s request to modify  
8 Rate 16. Like all of SCE&G’s other small general service customers,  
9 TWC’s CATV Power Supplies are being charged fairly based on the class  
10 of customers within which the CATV Power Supplies are located and based  
11 on the costs that have been allocated to that class. SCE&G does not  
12 allocate costs by specific rate schedules, individual customers, or individual  
13 customer equipment.

14 TWC’s request in this proceeding is to be treated differently from all  
15 other customers within the small general service class because their service  
16 characteristics are different than other customers within the class. The  
17 practical effect of TWC’s request would be to reduce the rate it pays and  
18 thereby shift costs to the other remaining customers within the small  
19 general service class.

20 Requiring SCE&G to carve out special rates for a specific customer  
21 or small group of customers because they have different service  
22 characteristics would raise the following issues: How different do service

1 characteristics need to be to justify a special rate and how many customers  
2 need to share these characteristics? Adopting a policy of creating special  
3 rates for small groups of customers would likely create an environment  
4 where SCE&G receives customer requests for many different rates for  
5 many different service characteristics. Such a policy would become  
6 patently unfair and create winners and losers within a rate class.  
7 Additionally, it would likely be confusing for customers and difficult to  
8 administer in that SCE&G would be tasked with developing and  
9 administering numerous varying rates for many different groups of  
10 customers. At the end of the day, there is no class of customer or rate  
11 schedule where every customer costs the same to serve. That is why we  
12 allocate costs among classes and charge customers rates that are based on  
13 those average costs.

14 **Q. HOW DO YOU RESPOND TO MR. COUGHLAN’S ASSERTION**  
15 **ON PAGE 5, LINES 18-22, OF HIS DIRECT TESTIMONY THAT**  
16 **“THE BASIC FACILITIES CHARGE (“BFC”) IS SUPPOSED TO BE**  
17 **BASED ON THE AVERAGE COST OF THE BASIC FACILITIES**  
18 **NECESSARY TO SERVE THE AVERAGE CATV POWER**  
19 **SUPPLY”?**

20 A. Again, I disagree with Mr. Coughlan’s assertion. The BFC covers  
21 more than the “facilities” necessary to serve a particular customer. It also  
22 includes, among other things, the costs of reading meters, preparing bills,

1 mailing bills, and providing customer service. Additionally, the ULP in  
2 Rate 16, under which TWC's CATV Power Supplies are being served,  
3 requires the Company to perform additional administrative duties. These  
4 administrative duties include: conducting annual reviews of all the accounts  
5 covered under the provision; as necessary, periodically testing these  
6 accounts, i.e., installing demand and time-of-use metering and surveying  
7 the usage for a period of time, to verify load patterns and characteristics so  
8 as to ensure that customers are being charged in the proper rate tier and to  
9 verify that the accounts qualify for participation under the ULP. For these  
10 reasons, SCE&G continues to charge the Rate 16 BFC to these customers  
11 even though there is no time-of-use metering being used on an ongoing  
12 basis.

13 Mr. Coughlan provides other information in his direct testimony  
14 asserting that it is less expensive to provide service to the CATV Power  
15 Supplies for certain items that generally fall under the BFC. Although I do  
16 not have direct knowledge of many of the details of these assertions, I have  
17 no reason to dispute that these customers may be less expensive to serve on  
18 an individual customer basis; however, at varying levels, the same  
19 conclusion could be reached with respect to thousands of other customers  
20 on virtually every rate we offer. The point is that there are customers that  
21 cost more to serve and customers that cost less to serve. However,  
22 regardless of rate schedule or class, all customers are being assessed a BFC

1           that is less than the actual customer cost for the customers' particular class  
2           as identified in the Exhibit No. \_\_ (JRH-4) attached to my pre-filed direct  
3           testimony in this docket.

4   **Q.   HOW DO YOU RESPOND TO MR. COUGHLAN'S ASSERTION**  
5       **ON PAGE 6, LINES 8-15, OF HIS DIRECT TESTIMONY THAT**  
6       **CATV POWER SUPPLY ACCOUNTS UNFAIRLY SUBSIDIZE**  
7       **OTHER COMMERCIAL CUSTOMERS BECAUSE SCE&G DOES**  
8       **NOT PASS ALONG THE "SAVINGS" IT REALIZES FROM NOT**  
9       **HAVING TO INSTALL A SOPHISTICATED DIGITAL**  
10       **ELECTRONIC METER WITH TIME-OF-USE METERING**  
11       **CAPABILITIES AT THE CATV POWER SUPPLIES?**

12   A.           SCE&G is not realizing any "savings" from not having to install a  
13           sophisticated digital electronic meter with time-of-use metering capabilities  
14           at the CATV Power Supplies. Rather, where a sophisticated meter  
15           installation is not required, the costs to serve the class as a whole and all the  
16           customers as a whole are reduced. In any class and in any rate schedule  
17           within a class, there are customers that cost more to serve and customers  
18           that cost less to serve.

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1   **Q.   DO YOU AGREE WITH MR. COUGHLAN’S ASSERTION ON**  
2       **PAGE 7, LINES 11-12 OF HIS DIRECT TESTIMONY THAT CATV**  
3       **POWER SUPPLIES ARE “AN IDEAL CUSTOMER FOR POWER**  
4       **COMPANIES”?**

5   A.       Mr. Coughlan’s statement implies that the Company would prefer all  
6       of its customers to have 100% load factors. Theoretically speaking, this  
7       may be true as it would allow the Company to spread its investment in  
8       capacity over the maximum potential output and to minimize its revenue  
9       requirement per kilowatt hour (“kWh”) sold. However, under actual  
10      operating conditions, a utility system cannot operate at 100% load factor  
11      because the system requires some margin of generation, transmission, and  
12      distribution capacity for planned and unplanned maintenance purposes as  
13      well as emergency backup, and it is also not possible to balance consumer  
14      loads perfectly.

15           As such, under actual operating conditions, a customer who has the  
16      ability to shift load to off peak times may at times be more valuable to the  
17      system than the 100% load factor customer who does not have the ability to  
18      shift load.

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1   **Q.   HOW DO YOU RESPOND TO MR. COUGHLAN’S ASSERTION**  
2       **ON PAGE 8, LINES 1-3, OF HIS DIRECT TESTIMONY THAT**  
3       **“CATV POWER SUPPLIES . . . ARE PAYING 36.6% MORE THAN**  
4       **THE AVERAGE COMMERCIAL OR INDUSTRIAL CUSTOMER**  
5       **ON THE SCE&G SYSTEM”?**

6   A.       In the chart at the bottom of page 7 of his direct testimony, Mr.  
7       Coughlan states that the total average weighted cost per kWh (excluding  
8       the basic customer charge) for all commercial and industrial customers is  
9       \$0.0836/kWh and that the same cost for CATV Power Supplies is  
10       \$0.11419/kWh. Mr. Coughlan then concludes that CATV is paying 36.6%  
11       more than the average commercial or industrial customer on SCE&G’s  
12       system. This comparison is flawed.

13       The CATV Power Supplies are small general service customers  
14       which are located at the end of SCE&G’s network. Therefore, the CATV  
15       Power Supplies must not only pay for production and transmission costs  
16       but also for costs associated with SCE&G’s distribution system. As part of  
17       Mr. Coughlan’s calculation he includes SCE&G’s large general service and  
18       medium general service customers who, unlike small general service  
19       customers, pay for very little of SCE&G’s distribution service. In fact,  
20       large general service and medium general service customers account for  
21       approximately 75% of the “MWH Sold” in the chart at the top of page 7 of  
22       Mr. Coughlan’s direct testimony. By including large general service and

1 medium general service customers within his calculations Mr. Coughlan's  
2 calculation of the total average cost per kWh for similarly situated  
3 customers is skewed and results in an overstated difference when that lower  
4 figure is compared to the small general service rate charged to the CATV  
5 Power Supplies.

6 As part of Mr. Coughlan's calculation he also uses the total average  
7 cost of \$0.0839/kWh which is set forth in SCE&G's 2010 FERC Form 1.  
8 If Mr. Coughlan had used the small general service rates only, the average  
9 cost per kWh would have been \$0.11212/kWh instead of \$0.0839/kWh.  
10 Using FERC Form 1 data from 2011, which is more current than FERC  
11 Form 1 data from 2010, the small general service rates average cost is  
12 \$0.12000/kWh. Mr. Coughlan also uses this same cost of \$0.0839/kWh in  
13 his table on page 15 of his testimony which also has an overstated  
14 difference. Stated simply, Mr. Coughlan is comparing apples to oranges.

15 **Q. WHAT IS THE IMPACT OF TWC'S REQUEST TO MODIFY THE**  
16 **EXPERIMENTAL UNIFORM LOAD PROVISION OF RATE 16 AS**  
17 **DESCRIBED ON PAGE 8, LINES 10-15, OF THE DIRECT**  
18 **TESTIMONY OF MR. COUGHLAN?**

19 A. The impact of TWC's request would be a savings for TWC and the  
20 other cable providers of approximately \$761,000 and an increase of the  
21 same amount to all other customers in the small general service class.



1   **Q.   WHAT IS YOUR RECOMMENDATION WITH RESPECT TO**  
2       **TWC’S REQUEST?**

3   A.           On behalf of SCE&G and for the reasons outlined above, I  
4       respectfully recommend that the Commission deny TWC’s request.

5   **Q.   HOW DO YOU RESPOND TO MR. O’DONNELL’S**  
6       **RECOMMENDATION ON PAGE 55, LINES 12-13, OF HIS DIRECT**  
7       **TESTIMONY THAT SCE&G OPEN ITS INTERRUPTIBLE LOAD**  
8       **PROGRAM TARIFF TO AN ADDITIONAL 100 MW OF**  
9       **INTERRUPTIBLE POWER?**

10  A.           SCE&G does not presently have a need for any additional  
11       interruptible load. In its most recently filed Integrated Resource Plan, the  
12       Company showed the need for additional capacity in 2015 and 2016, and in  
13       2015, the capacity shortfall is minimal. When the Company’s two new  
14       nuclear units come online in 2017 and 2018, the Company will not need  
15       additional capacity for several years thereafter. As such, the only way for  
16       SCE&G to add interruptible load at this time would be to allow new load to  
17       participate in the interruptible load program beginning in 2016 and then  
18       remove that same load from the interruptible program when the first new  
19       nuclear unit comes online the following year. This strategy would be  
20       disruptive and inefficient. While interruptible customer load can be used to  
21       displace the need for additional capacity as the Company’s current resource  
22       plans demonstrate, the Company considers the interruptible load program to

1 be a long term commitment between itself and the contracting customer.  
2 Therefore, the Company believes opening its interruptible load program  
3 tariff to additional load is an inappropriate way to satisfy a forecasted need  
4 for one year, i.e., 2016. The Company will, however, certainly consider  
5 taking steps to open its interruptible load program tariff to additional load  
6 in the future when it serves the economic interest of all our customers.

7 I would also note that, if the Commission accepted the  
8 recommendation of Mr. O'Donnell and required SCE&G to open its  
9 interruptible tariff to an additional 100 MW of interruptible load, the  
10 Company would need to increase its requested revenue requirement in this  
11 proceeding by \$5,400,000, given that interruptible customers receive a  
12 credit of \$4.50 per kW of interruptible load per month.

13 **Q. HOW DO YOU RESPOND TO MR. O'DONNELL'S**  
14 **RECOMMENDATION ON PAGE 56, LINES 9-10, OF HIS DIRECT**  
15 **TESTIMONY THAT THE COMMISSION ORDER SCE&G TO**  
16 **EXPAND ITS REAL TIME PRICING ("RTP") OFFERINGS TO**  
17 **MORE INDUSTRIAL LOAD?**

18 A. Mr. O'Donnell's recommendation with respect to the Company's  
19 RTP offerings is unnecessary. The Company's existing RTP tariff does not  
20 restrict new industrial customers or existing industrial customers who are  
21 expanding their plant production from participating in RTP.

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1   **Q.     DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

2   A.           Yes.